

CHAPTER 8. TRADE AND PROJECT FINANCING

THE BANKING SYSTEM

There are currently 33 commercial banks in Thailand -- 13 domestic and 19 fully licensed foreign banks. Three American banks maintain full branches here: Bank of America N.T. & S.A, The Chase Manhattan Bank, N.A. and Citibank, N.A. Among these 19 fully licensed foreign banks, 17 banks maintained IBF licenses to operate offshore banking units under the Bangkok International Banking Facilities (BIBFs). There are also 11 other foreign banks having only IBF licenses, including 2 American Banks: American Express Bank and Bank of New York .

Leading Local Banks in Thailand

<u>Bank Name</u>	<u>No. of Local Branches & Sub-Branches</u>	<u>Branches Abroad</u>
1. Krung Thai Bank	618	7
2. Thai Farmers Bank	530	7
3. Bangkok Bank Plc.	557	14
4. The Siam Commercial Bank	476	5
5. Bank of Ayudhaya	415	3
6. The Thai Military Bank	364	4

The public financial sector includes several "specialized" government banks, namely the Government Savings Bank for small savings deposits, the Bank for Agriculture and Agricultural Cooperatives for farm credits, the Government Housing bank for middle and low income housing mortgages, the Industrial Finance Corporation of Thailand for industrial development projects, and the Export Import Bank for importers and exporters. Other financial institutions in Thailand include finance companies (21 firms), credit fonciers (mortgage lenders - 9 firms), life and non-life insurance companies and several other financial cooperatives.

In the years before the crisis, the Thai financial sector grew rapidly, but it was poorly regulated and mismanaged. However, with the cooperation of the IMF and other multilateral and bilateral donors, the government is now attempting to bring financial sector practices in line with international standards. Accounting, auditing standards, and corporate governance are being upgraded. Also regulatory and corporate governance requirements for listed companies are being strengthened. In the banking sector, the Bank of Thailand, with multilateral and bilateral assistance, is improving its examination and supervision functions, and banks are required to meet BIS capitalization standards. Central bank regulators are reviewing new guidelines on related lending by commercial banks to shareholders, directors or subsidiary companies.

In order to facilitate the recapitalization of the financial sector, foreign investors, with sound financial status and potential to increase efficiency in managing financial institutions, are allowed to hold more than 49% of shares in financial institutions for a

period of 10 years. After 10 years, foreign investors will not be forced to sell their shares but may not purchase any additional shares, unless the amount of foreign shareholdings is less than 49% of total shares. The additional shares may be acquired to bring foreign shareholdings to 49% of total shares.

In addition, restrictions on the operations of foreign banks have also eased over the years although differences between conditions for foreign banks and domestic banks remain. With the exception of restrictions on branching, remaining restrictions do not significantly hamper operations.

FOREIGN EXCHANGE CONTROLS AFFECTING TRADE

Exchange controls are governed by the Exchange Control Act of 1942 administered by the Bank of Thailand (central bank). The measures to enhance foreign currency flows and to maintain stability of the Baht were implemented on September 23, 1997. Inward remittances are free of control. To increase foreign currency supply in circulation, any persons receiving foreign currencies are required to sell their foreign currencies to or deposit their foreign currencies with an authorized agent within 7 days from the date of receipt, a change from 15 days previously. However, there is an exception for non-residents and foreigners who stay in Thailand less than three months as well as persons who receive diplomatic privileges. Exporters of goods valued exceeding Bt 500,000 (approx. US\$11,111) are required to bring their export proceeds received from foreign buyers into the country immediately after payment is received, but within a maximum of 120 days from the date of export.

Thai nationals are subject to quantitative limits on the amount of foreign currency that can be remitted abroad without specific permission of the Bank of Thailand. The limits vary depending upon the purpose of the transaction and range from \$10 million per annum for business investment or loans to subsidiaries to \$100,000 per recipient for remittances to family members who are non-residents. Thai nationals moving permanently abroad are allowed to transfer a maximum of US\$ 1 million per annum of their money out of the country. Funds transferred out of the country to purchase real estate or securities overseas must be approved by a foreign exchange control officer.

Presently, commercial banks are authorized to undertake most routine foreign remittance transactions without prior approval from the Bank of Thailand.

GENERAL AVAILABILITY OF FINANCING

The financial crisis that began in mid-1997 severely affected the availability of credit in the country. Initial responses to the crisis included significantly higher interest rates and tight liquidity. Interest rates have since fallen with the return of stability to the financial markets, and banks now have significant liquidity.

Local banks and other financial institutions are exercising more caution on new lending due to the fear of creating new non-performing loans. Lending is now much different than in the past, in that most banks are now asking for a definitive business plan from borrowers before approving loans. Liquidity is ample, and local lending interest rates remain at historic lows for Thailand. Minimum lending (prime) rates at Thai commercial banks average 7-8 percent.

Besides the local commercial, trade, and corporate financing facilities available from local banks, the Thai government maintains facilities, such as direct packing credit, to ease exporters' access to trade financing. The Thai EXIM Bank, Asian Development Bank, Japanese EXIM Bank, and the U.S. Export Import Bank also have trade financing facilities.

HOW TO FINANCE EXPORTS AND METHODS OF PAYMENT

The majority of U.S. firms exporting to Thailand conduct business on a documentary basis, and use various methods of financing such as letters of credit (L/Cs), bank drafts and wire transfers. New-to-market exporters and infrequent exporters should require confirmed, irrevocable L/Cs when initiating relationships with new importers and distributors. Once the importer has established a good payment record and the U.S. firm is convinced of the importer's trustworthiness, it is advisable to provide more lenient terms. However, in the present economic climate, many exporters are retaining tighter control on payment mechanisms than they exercised previously.

EXPORT FINANCING AND INSURANCE AVAILABLE TO US EXPORTERS

The term "Project Finance" refers to the financing of projects that are dependent on the project cash flows for repayment. Successful projects rely on a large number of integrated contractual arrangements as well as the country's legal framework and investment environment. There is a full range of public and private sector financing options for project investors in Thailand. Commercial bank loans are available for investors who can show promising yields in the short-to medium term. Equity market fund raising has also taken off in recent years as the Thai Stock Market has developed.

For certain longer-term projects, where yield is lower or less predictable, funding is being provided by multilateral institutions such as Asian Development Bank and the World Bank. These types of projects tend to be in the areas of human resources development, the environment, highway construction and rural utilities. Long-term projects can also be funded or supported through OPIC or U.S. Exim Bank project finance programs.

Project "risk insurance" refers to the programs of OPIC and the U.S. Exim Bank to protect companies from losses associated with political risk and other factors in countries with questionable political and economic stability.

U.S. EXPORT IMPORT BANK (ExIm)

The Export-Import Bank (ExIm Bank) assists U.S. exporters to compete against foreign government subsidized financing to primarily emerging markets throughout the world, by providing loans, guarantees, and insurance to U.S. exporters. It provides bank guarantees on working capital loans for U.S. exporters or makes loans to foreign purchasers of U.S. goods and services. ExIm Bank also provides credit insurance that protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. Most of the ExIm Bank projects in Thailand are involved with the following industries: power, aircraft, petrochemical, steel, cement, and telecommunication sectors.

**COMMODITY CREDIT PROGRAM
GSM-102 EXPORT CREDIT GUARANTEE PROGRAM**

The U.S. Department of Agriculture administers export credit guarantee programs for commercial financing of U.S. agricultural exports through the Commodity Credit Corporation. Under the programs, the Commodity Credit Corporation guarantees payments due from foreign banks. Typically, 98 percent of the principal and a portion of the interest are covered. The GSM-102 program covers credit terms up to three years.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)'S INSURANCE PROGRAM

OPIC is an independent, financially self-supporting corporation, fully owned by the U.S. Government. OPIC assists U.S. private investors by providing political risk insurance to U.S. investors, contractors, exporters and financial institutions involved in international transactions. Insurance is available for investments in new ventures or expansions of existing enterprises, and can cover equity investments, parent company and third party loans and loan guarantees, technical assistance agreements, cross-border leases, assigned inventory or equipment, and other forms of investment. Coverage is also available for contractors' and exporters' exposures, including unresolved contractual disputes; wrongful calling of bids, performance, advance payment and other guaranties posted in favor of foreign buyers, and other risks.

OPIC insurance can be purchased to cover the following political risks: Currency inconvertibility – the inability to convert profits, debt service and other remittances from local currency into U.S. dollars; Expropriation – the loss of an investment due to expropriation, nationalization or confiscation by a foreign government; Political Violence – the loss of assets or income due to war, revolution, insurrection or politically motivated civil strife, terrorism and sabotage.

INTERNATIONAL FINANCIAL INSTITUTIONS

THE WORLD BANK

The World Bank Group is a multilateral lending organization consisting of five closely related institutions: the International Bank of Reconstruction and Development (IBRD); the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and, the International Center for Settlement of Investment Disputes (ICSID). The World Bank provides loans to developing countries to help reduce poverty and to finance investments that contribute to economic growth.

The World Bank began lending to Thailand in 1950, a year after the country became a member in 1949. In subsequent years through June 1999, Thailand requested and received approximately US\$8.0 billion in loan and credit assistance for over 130 operations. Bank support has taken many forms, including intense policy dialogue, technical assistance, and knowledge sharing. Currently the Bank is engaged in 16 operations in the rural development, energy, education, transport, social, and economic/financial sectors, with a total commitment of US\$ 1.9 billion.

IFC, the Bank's private sector arm, has been involved in the protection of its portfolio companies and the restructuring of non-portfolio companies with good long-term fundamentals. For fiscal year 2002 the volume of the IFCs activities will depend on the pace of corporate restructuring. In addition, as a major component of its recent mandate to help establish a US\$500 million investment fund for the restructuring and recapitalization of Thai enterprises.

Thailand ratified the Multilateral Investment Guarantee Agency (MIGA) convention on August 11, 2000 and became a member effective October 20, 2000. MIGA has not guaranteed any projects in Thailand. However, investors have expressed considerable interest in MIGA guarantees for investment, particularly in the infrastructure sector.

Since the onset of the financial crisis in 1997, the World Bank's assistance to Thailand has focused on three major objectives to restore sustainable and more equitable growth: 1) renewing competitiveness of Thailand's private sector and labor force; 2) improving governance through enhanced private and public sector management, and 3) sharing growth and ensuring quality of life by protecting the vulnerable and targeting the poor and improving environmental management. The Bank supports Government efforts in these areas through a combination of lending, guarantees, technical assistance, and policy advice. Other forms of Bank support include analytical reports, policy notes, a program of international knowledge exchange, and public policy seminars.

A brief description of each group member follows:

The International Bank of Reconstruction and Development (IBRD) provides loans and development assistance to middle-income countries and creditworthy poorer countries. Voting power is linked to members' capital subscriptions, which in turn are based on each country's relative economic strength. The IBRD obtains most of its funds through the sale of bonds in international capital markets.

The International Development Association (IDA) plays a key role in supporting the Bank's poverty reduction mission. IDA assistance is focused on the poorest countries, to which it provides interest-free loans and other services. IDA depends on contributions from its wealthier member countries – including some developing countries – for most of its financial resources.

The International Finance Corporation (IFC) promotes growth in the developing world by financing private sector investments and providing technical assistance and advice to governments and businesses. In partnership with private investors, IFC provides both loan and equity finance for business ventures in developing countries.

The Multilateral Investment Guarantee Agency (MIGA) helps encourage foreign investment in developing countries by providing guarantees to foreign investors against loss caused by non-commercial risks. MIGA also provides technical assistance to help countries disseminate information on investment opportunities.

The International Center for Settlement of Investment Disputes (ICSID) provides facilities for the settlement – by conciliation or arbitration – of investment disputes between foreign investors and their host countries.

The World Bank office in Thailand is located at 93/1 Wireless Road, Diethelm Towers, 14th Floor, Tower A, Bangkok 10330, Thailand, Tel: 662-252-2305/7, Fax: 662-256-7795. For further information and assistance contact the Commercial Service Liaison Staff, Office of the U.S. Executive Director, The World Bank, 1818 H Street NW, Washington, D.C. 20433, USA, Tel: 202-458-0118 or 0120, Fax: 202-477-2967. World Bank projects are listed in the NTDB and on the Internet.

THE INTERNATIONAL MONETARY FUND (IMF)

The IMF is an international organization of 182 member countries, established to promote international monetary cooperation, exchange rate stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries under adequate safeguards to help ease balance of payments adjustment.

In August 1997 Thailand entered into a Stand-by Arrangement with the IMF under which the Fund and other multilateral and bilateral donors made available to Thailand a total of \$17.2 billion. Thailand completed its IMF supervised program in mid-2000, having drawn only \$14.3 billion from the package and none since mid-1999. Repayments to the Fund and other donors began in late 2000. The IMF praised Thailand

for its implementation of appropriate financial and economic policies and urged continued reform. The IMF continues to monitor Thai macro-economic performance.

ASIAN DEVELOPMENT BANK (ADB)

The Asian Development Bank, headquartered in Manila, is an international financial institution owned by 56 Developing Member Countries (DMC's), of which the United States and Japan are the largest shareholders. The Bank provides loans and equity investments for the economic and social advancement of DMC's in the Asia/Pacific Region. The Bank provides technical assistance for development projects and advisory services; promotes investment of public and private capital for development purposes; and responds to requests for assistance in coordinating development policies and plans of DMC's.

An important aspect of the ADB's operational policy is to support the development of the private sector in DMC's. While all loans normally made to DMC's are guaranteed, the Bank provides direct loans to private companies without government guarantee for projects that produce essential items or provide vital services.

A Commercial Liaison Office, that reports directly to the Office of Multilateral Development Banks at the Commerce Department in Washington, assists U.S. suppliers and consultants in winning contracts on projects and activities funded by the Bank. Interested parties should contact Senior Commercial Officer, U.S. Liaison to the Asian Development Bank, Fax: 632-890-9713. ADB project commitments are listed in the National Trade Data Bank (NTDB) and on the Internet (www.asiandevbank.org).

JAPAN'S BANK FOR INTERNATIONAL COOPERATION (JBIC)

Japan's Overseas Economic Cooperation Fund (OECF) merged with the Export-Import Bank of Japan (JEXIM) to become the Japan Bank for International Cooperation (JBIC) in October 1999. The JBIC loans to Thailand began in 1969, when the loan/agreements for Lam Dom Noi Hydroelectric Project (I) was signed under the first loan packages. The cumulative commitment amount of ODA loans to Thailand now (as of 03/00) stands at 1,783 billion yen, covering 226 projects.

U.S. EXPORT-IMPORT BANK (EXIM) PROJECT FINANCE

The U.S. Export-Import Bank established its Project Finance Division in June, 1994. As developing nations turn away from sovereign-guaranteed borrowing, the Bank's project financing program will assist U.S. exporters to compete in new international growth industries such as the development of private power and other infrastructure. While such a financing structure has been used successfully in the past for oil and gas, mining, and power projects, the move toward "privatization" by sovereign entities has created new opportunities for U.S. exporters in telecommunication, transportation and other sectors.

ExIm Bank offers short-, medium-, and long-term programs to support U.S. exports to Thailand. The ExIm Bank's short-term export credit insurance program will provide for the financing of exports of consumer goods, spare parts, raw materials (on terms up to 180 days) and bulk agricultural commodities and quasi-capital goods (on terms up to 360 days).

Under ExIm Bank's short-term letter of credit insurance program, it will insure irrevocable letters of credit issued by the following Thai commercial banks: Bangkok Bank, Krung Thai Bank, Siam Commercial Bank and Thai Farmers Bank. For information on which Thai bank ExIm Bank may have internal limits for, please contact ExIm Bank's regional offices or its headquarters Business Development Division.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)'S PROJECT FINANCING

OPIC finances U.S. business expansion overseas by providing long-term, limited-recourse project financing to ventures involving significant equity participation by U.S. Businesses. Financing is available for new ventures as well as expansion or modernization of existing ones. Loan guaranties are typically used for larger projects, while direct loans are reserved for projects involving U.S. small businesses and cooperatives.

OPIC can provide project financing in countries where conventional financial institutions often are reluctant or unable to lend. Rather than relying on sovereign or sponsor guaranties, OPIC looks for repayment from the revenues generated by the project itself. OPIC requires that there be a projected cash flow sufficient to pay all operational costs, service all debt, and provide an adequate return on the investment. To the extent that such financing is appropriate, sponsors need not pledge their own general credit for loan repayment beyond required project completion undertaking. In ventures where project financing is impractical, OPIC will consider more conventional lending techniques.

U.S. TRADE AND DEVELOPMENT AGENCY (USTDA)

USTDA is an independent commercially-oriented foreign assistance agency of the United States Government. TDA promotes economic development and trade in developing and middle-income countries by funding feasibility studies, consultancies, training programs and other project planning services. In Asia, TDA creates export opportunities for U.S. firms by identifying major development projects which offer large export potential. Last year, TDA provided assistance in 67 nations around the world. In 2001, TDA has signed grants worth nearly US\$ 2 million with Thailand, which, historically, has been the largest recipient of TDA grants in Asia. Since the inception of the program in the early 1980's, Thailand has received more than US\$36 million for more than 134 projects.

In 2001, the following TDA grants have been approved for Thailand:

1. The Provincial Electricity Authority signed a grant for US\$293,480 to fund the cost of goods and services required for a feasibility study ("Study") to develop its Geographic Information System (GIS) project. The Grant was signed at the February 2001 TDA conference in Kuala Lumpur presenting GIS projects from throughout the East and South Asian regions.
2. The New Bangkok International Airport Company Ltd. (NBIA) signed a grant agreement with USTDA to provide \$250,000 to fund a study to review all aspects of the security system requirements for the Suvaranabhumi International Airport to ensure compliance with ICAO Annex 17 requirements.
3. The Royal Irrigation Dept. (RID) signed a US\$ 294,995 grant agreement with USTDA to conduct a feasibility study for a flood forecasting and warning system project that would include the establishment of a real-time communications network to mitigate the results of any future flooding. The total project will cost an estimated US\$ 15 million in its first year of implementation.
4. The Provincial Electricity Authority signed a grant for US\$560,000 to conduct a feasibility study and develop technical specifications for its Information Technologies Project. The Project will make recommendations for the optimum organizational structure and business processes, including possible restructuring, develop recommendations on system metering, update and expand the existing IT Master Plan and develop a revised IT structure for PEA.
5. The Department of Highways, Ministry of Transport and Communications signed a grant for US\$318,000 for the Highway Equipment Handling and Management Project. The grant will fund the cost of goods and services to undertake a review of DOH's current road equipment management activities and then develop a set of recommendations for alternatives to the current management of the maintenance system for its road construction equipment, including roles for the private sector.

U.S. - ASIA ENVIRONMENTAL PARTNERSHIP (USAEP)

The United States-Asia Environmental Partnership (US-AEP) is a public-private, inter-agency program that promotes environmentally sound economic growth in Asia by mobilizing American technologies, services and experience. The partnership is led and funded by the U.S. Agency for International Development (USAID) and includes the U.S. Environmental Protection Agency, U.S. Department of Commerce, nongovernmental organizations, environmental technology associations, grant-making bodies, and private contractors responsible for the following US-AEP programs: the Environmental Exchange Program, Clean Technology and Environmental Management, Technology Transfer and The Policy Group. More information on US-AEP is available at www.usaep.org

TYPES OF PROJECTS RECEIVING FINANCING SUPPORT

The range of projects that can receive financing support fall into three broad categories of public infrastructure, social development and private sector incentives. Typically, the types of public infrastructure projects financed include obtaining expert consulting services for national planning, financial institutional development, regulatory regime development and achieving international standards. Social development projects include health care, rural development, urban relief, institutional development, technology transfer, human resource development and wealth creation through rural industries. In the private sector projects include financing for participation in large infrastructure privatization, independent power and telecommunications, agricultural development and irrigation schemes, environmental technology, investment in manufacturing facilities, transportation, and, increasingly, the development of small and medium sized enterprises.

LIST OF BANKS WITH CORRESPONDENT U.S. BANKING ARRANGEMENTS

A list of banks with correspondent U.S. banking arrangements and a list of U.S. banks operating in Thailand is included in Chapter 11 of this Country Commercial Guide.